

TITLE 760 DEPARTMENT OF INSURANCE

Proposed Rule LSA Document #06-491

DIGEST

Adds 760 IAC 1-74 regarding to recognize, permit and prescribe the use of mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities. Effective 30 days after filing with the publisher.

760 IAC 1-74

IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses

The proposed rule addresses reserves to be held by insurance companies writing life insurance. The existing mortality tables (760 IAC 1-35) do not make allowances for preferred mortality underwriting classes and is therefore conservative for policies issued to preferred lives. The preferred class structure allowed by this proposed rule has 3 non smoker classes and 2 smoker classes. The Society of Actuaries and the American Academy of Actuaries have approved the use of these tables. The proposed rule is based upon the model regulation adopted by the National Association of Insurance Commissioners in late 2006. The rule will impact life insurance companies. There are 43 Indiana domestic life insurance companies. Most do not qualify as small business. At the most, 18 of these companies may be small businesses.

Estimated Average Annual Administrative Costs that Small Businesses will Incur:

There are no regulatory costs associated with this proposed rule.

Estimated Total Annual Economic Impact on Small Businesses:

The overall impact of this rule is positive to life insurance companies as it allows a more realistic reserve to be held for this type of policy.

Regulatory Flexibility Analysis of Alternative Methods:

The department determined that adoption of the model standards issued by the National Association of Insurance would be the most efficient for the marketplace. The standards are uniform so that there is no additional cost for doing business in Indiana.

SECTION 1. 760 IAC 1-74 IS ADDED TO READ AS FOLLOWS:

Rule 74. Recognition of Preferred Mortality Tables for Use in Determining Minimum

Reserve Liabilities

760 IAC 1-74 Definitions

Authority: IC 27-1-3-7

Affected: IC 27-1-12-10

Sec.1. The following definitions apply throughout this rule:

(1) “2001 CSO Mortality Table” means that mortality tables, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the Proceedings of the NAIC (2nd Quarter 2002) and supplemented by the 2001 CSO Preferred Class Structure Mortality Table. Unless the context indicates otherwise, the “2001 CSO Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables. Mortality tables in the 2001 CSO Mortality Table include the following:

(A) “2001 CSO Mortality Table (F)” means that mortality table consisting of the rates of mortality for female lives from the 2001 CSO Mortality Table.

(B) “2001 CSO Mortality Table (M)” means that mortality tables consisting of the rates of mortality for male lives from the 2001 CSO Mortality Table.

(C) “Composite mortality tables” means mortality tables with rates of mortality that do not distinguish between smokers and non smokers.

(D) “Smoker and nonsmoker mortality tables” means mortality tables with separate rates of mortality for smokers and non smokers.

(2) “2001 CSO Preferred Class Structure Mortality Table” means mortality tables with separate rates of mortality for Super Preferred Nonsmokers, Preferred Nonsmokers, Residual Standard Nonsmokers, Preferred Smokers, and Residual Standard Smoker splits of the 2001 CSO Nonsmoker and Smoker tables as adopted by the NAIC at the September, 2006 national meeting and published in the NAIC Proceedings (3rd Quarter 2006). Unless the context indicates otherwise, the “2001 CSO Preferred Class Structure Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table. It includes both the smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality table.

(3) “Statistical agent” means an entity with proven systems for protecting the confidentiality of individual insured and insurer information, demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers, which are its members or subscribers; and a history of and means for aggregation of data and accurate promulgation of the

experience modifications in a timely manner.
(Department of Insurance; 760 IAC 1-74-1)

760 IAC 1-74-2 2001 CSO Preferred Class Structure Table

Authority: IC 27-1-3-7

Affected: IC 27-1-12-10

Sec. 2. At the election of the company, for each calendar year of issue, for any one (1) or more specified plans of insurance and subject to satisfying the conditions stated in this rule, the 2001 CSO Preferred Class Structure Mortality Table may be substituted in place of the 2001 CSO Smoker or Nonsmoker Mortality Table as the minimum valuation standard for policies issued on or after January 1, 2007. No such election shall be made until the company demonstrates at least twenty percent (20%) of the business to be valued on this table is in one or more of the preferred classes. A table from the 2001 CSO preferred Class Structure Mortality Table used in place of a 2001 CSO Mortality Table, pursuant to the requirements of this rule, will be treated as part of the 2001 CSO Mortality Table only for purposes of reserve valuation pursuant to the requirements of 760 IAC 1-35.
(Department of Insurance; 760 IAC 1-74-2)

760 IAC 1-74-3 Conditions

Authority: IC 27-1-3-7

Affected: IC 27-1-12-10

Sec 3. (a) For each plan of insurance with separate rates for Preferred and Standard Nonsmoker lives, an insurer may use the Super Preferred Nonsmoker, Preferred Nonsmoker, and Residual Standard Nonsmoker tables to substitute for the Nonsmoker mortality table found in the 2001 CSO mortality Table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the Residual Standard Nonsmoker Table, the appointed actuary shall certify that:

- (1) The present value of death benefits over the next ten (10) years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.**
- (2) The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.**

(b) For each plan of insurance with separate rate for Preferred and Standard Smoker lives, an insurer may use the Preferred Smoker and Residual Standard tables to substitute for the Smoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, for business

valued under the Preferred Smoker Table, the appointed actuary shall certify that:

- (1) The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the Preferred Smoker valuation basic table corresponding to the valuation table being used for that class.
- (2) The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the Preferred Smoker valuation basic table.

(c) Unless exempted by the commissioner, every authorized insurer using the 2001 CSO Preferred Class Structure Table shall annually file with the commissioner, with the NAIC, or with a statistical agent designated by the NAIC and acceptable to the commissioner, statistical reports agent designated by the NAIC and acceptable to the commissioner, statistical reports showing mortality and such other information as the commissioner may deem necessary or expedient for the administration of the provision of this rule. The form for the reports shall be established by the commissioner or the commissioner may require the use of a form established by the NAIC or by a statistical agent designated by the NAIC and acceptable to the commissioner. *(Department of Insurance; 760 IAC 1-74-3)*

760 IAC 1-74-4 Severability

Authority: IC 27-1-3-7

Affected: IC 27-1-12-10

Sec 4. If any provision of this rule or its application to any person or circumstance is for any reason held to be invalid, the remainder of the rule and the application of the provision to other persons or circumstances shall not be affected. *(Department of Insurance; 760 IAC 1-74-4)*